

DIRECT TESTIMONY

of

**Cheri L. Harden
Rate Analyst**

**Rates Department
Financial Analysis Division
Illinois Commerce Commission**

Proposed General Increase in Water Rates

**Utilities, Inc. d/b/a
Charmar Water Company**

Docket No. 03-0400

August 28, 2003

1 **Q. Would you please state your name and business address?**

2 A. Cheri L. Harden, 527 East Capitol Avenue, Springfield, Illinois 62701.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by the Illinois Commerce Commission (“Commission”) as a Rate
6 Analyst in the Rates Department in the Financial Analysis Division.

8 **Q. How long have you been employed by the Illinois Commerce Commission?**

9 A. I have been employed by the Commission since September 2000. My
10 responsibilities include rate design and cost of service analyses for electric,
11 water and gas utilities and the preparation of testimony on rates and rate-related
12 matters.

14 **Q. Will you please briefly state your qualifications?**

15 A. I graduated from the University of Maryland in 1993, with a Bachelor of Science
16 degree in Management Studies.

18 Previously, I worked for the Wyoming Public Service Commission for almost
19 seven years. The last two positions I held were as the Consumer Services
20 Coordinator and as a Rate Analyst. I analyzed telecommunications, electric
21 (investor-owned and cooperatives), gas, water and pipeline company filings. I
22 reviewed a variety of cases including mergers, tariff revisions, fuel adjustments,
23 certificate applications, complaints, contract/interconnection agreements and
24 rate cases. I also worked on special projects such as the Universal Service

Fund, Annual Reports and Year 2000 Preparedness.

Q. Have you formerly testified before regulatory bodies?

A. Yes, I have testified on several occasions before the Illinois Commerce Commission and the Wyoming Public Service Commission.

Q. What area does your testimony address?

A. My testimony will discuss Charmar Water Company's ("Charmar" or "Company") filing for a general increase in rates. I will be presenting testimony and exhibits concerning cost of service and rate design issues. I will also testify to the proposed test year billing units and the development of charges associated with miscellaneous operating revenue.

Q. Are you making any recommendations concerning the appropriateness of the total annual revenue requirement for the Company in this proceeding?

A. No, I am not. My testimony is directed toward the review of the proposed tariffs (and underlying support) filed by the Company to recover the revenue requirement deemed appropriate in this proceeding. I utilize the revenue requirement discussed by Staff Witness Leslie Pugh in her testimony at page 3 under the heading of Revenue Requirement Schedules.

Q. Please explain how your testimony is organized.

A. I begin with a review of the Company's test year billing units and proposed proforma total revenues. Then I will discuss the development of Staff's proposed rates and issues related to rate design. I conclude with a discussion about miscellaneous water tariff charge issues.

Q. Are you presenting any schedules?

A. Yes I am. I have attached the following schedules:

Schedule 5.1 – Required Cost of Service Breakdown

Schedule 5.2 – Rate Design Analysis

Schedule 5.3 – Typical Bill Calculation

Q. Did you send any data requests to the Company?

A. I am adopting data requests WDM 1.01 – 1.37. I used these data responses, which Staff received from the Company on June 13, 2003, in preparing my testimony.

Q. Please describe Charmar Water Company.

A. Charmar is a wholly owned subsidiary of Utilities, Inc. ("UI") who owns 24 water and wastewater utilities in Illinois. Water Service Corporation ("WSC") manages the operation for all of UI's water and wastewater systems, including Charmar.

WSC provides management, administration, engineering, accounting, billing, data processing, and regulatory services for the utility systems. (Ross, Direct Testimony, p. 1)

Charmar provides water service to approximately 53 residential customers in Charmar subdivision in Lake County, Illinois. (Ross, Direct Testimony, p. 2).

TEST YEAR BILLING UNITS AND TOTAL REVENUES

Q. What test year water usage levels and billing units is the Company proposing to use in this case?

A. The Company is proposing to use year ending December 2002, usage levels and billing units for the test year. (Ross Direct Testimony, p. 2)

Q. Do you have any adjustments to the Company's proposed proforma test year usage levels and billing units?

A. Yes, I do. On the Company's Schedule E, Proposed Revenues the Company shows billing units to be 624 for the Facilities Charge. That equates to 52 customers over the 12-month period.

The Company stated in WDM 1.01 that the Company has had 53 customers for each year ending 1993, through 2002, and through the latest billing period of

2003. In WDM 1.18, the Company stated that the 624 billing units represents the actual billing units for 2002. In WDM 1.19, the Company explains that there are 53 meters located within the service area, however, three of these meters were unused for the last two billing periods of the year. In data response WDM 1.23, the customer count has been referred to as 53. In this data response the count of 53 was used to convert from a bimonthly billing cycle to a monthly billing cycle and the cost increase that would result from the change.

I am proposing a customer count of 53, which translates to 636 billing units.

Q. Did you review the Company's exhibits, workpapers, and data request responses concerning present and proposed water revenues?

A. Yes, I did.

Q. Has the Company identified Miscellaneous Operating Revenues for the test year?

A. Yes, the Company has identified a total of \$130 in Miscellaneous Operating Revenues for the test year. This was identified in Company response to Staff Request WDM 1.11 as consisting of \$106.00 in Forfeited Discounts and \$24 in New Customer Charge revenues. However, in a Data Request WDM 1.04 the Company identified a dollar amount for late payment charges of \$12.83 that did

not seem to be identified in the response from the Company to Date Request
WDM 1.11.

Q. Has the Company provided any evidence to explain this discrepancy?

A. The Company stated, through direct conversation with Staff, that the Forfeited Discount figure of \$106 represents the full amount of Late Payment Charges collected by the Company for the test year including the \$12.83.

Q. Do you have any adjustments to revenues because of your review?

A. Yes, I have adjusted Miscellaneous Operating Revenues as discussed below.

Forfeited Discounts are based on late payment fees that customers pay when their bills are past due as previously discussed. Late Payment Charges are 1.5% of a customer's total bill each month. Therefore, if the Company's rates increase, Forfeited Discounts/Late Payment Charge revenues will also increase.

I made an adjustment to reflect approximately the same number of customers paying their bills after the due date, but at Staff's proposed rates.

I have also adjusted the New Customer Charge under Miscellaneous Operating Revenues. As discussed later in my testimony I propose to increase the New Customer Charge from \$12 to \$15.

Miscellaneous Operating Revenues can be found on ICC Staff Exhibit 5.0,
Schedule 5.2.

Rate Design

Q. What is the purpose of a cost of service study for a water company?

A. A cost of service study in the water industry is performed to assist in the
development and design of cost based water rates. It determines the
appropriate cost of service for each customer class (e.g., residential,
commercial, industrial or availability).

Q. Did the Company submit a cost of service study for Charmar?

A. No, it did not.

Q. Does the Company provide any support for its proposed charges?

A. The Company provided accounting workpapers in response to Data Request
WDM 1.13 that were used by the Company to determine the proposed water
rates. However, the Company does not describe any methodology it used to
determine the proposed rates.

Q. Does this lack of cost support present a problem?

151 A. Yes. The Commission has a longstanding objective of basing rates on costs.
152 The lack of a cost foundation means that the Company's proposals fall short of
153 this objective.

154
155 **Q. How would Staff normally address the Company's failure to base its**
156 **proposed rates on costs?**

157 A. The normal response would be for Staff to develop an alternative cost of service
158 study to use as a foundation for deriving cost-based rates.

159
160 **Q. Did you prepare a cost of service study for Charmar?**

161 A. No, I did not.

162
163 **Q. Please explain.**

164 A. The Company has provided insufficient data to develop such a study. Staff's
165 water cost of service study requires detailed cost and plant information in order
166 to generate rates that are considered cost based. To secure that information,
167 Staff sent a data request to the Company (See ICC Staff Exhibit 5.0, Schedule
168 5.1) that identified specific categories, which would enable Staff to perform a
169 cost of service study. The Company did respond to Staff's data request by
170 providing information, but the information was not broken down in an appropriate
171 manner.

For example, the Staff study needs to identify the costs associated with billing in order to determine the appropriate levels of facility charges. To determine that figure, Staff asked the Company to identify the level of customer account expenses in data request WDM 1.12. In its response, the Company failed to identify customer account expenses. Staff disputes this response given that the Company incurs expenses such as postage, paper, labor and related costs in maintaining customer accounts. Thus, acceptance of the Company number would clearly undermine the accuracy of Staff's cost of service study. Further, there is no support on the record for using an alternative customer account figure. This lack of data serves to undermine Staff's effort to develop a cost of service study for the Company.

Additional questions arise concerning other account data provided by the Company for Staff's cost of service study. The Company identified \$8,074 of Plant in Service costs associated with services. However, it did not attribute any Operation and Maintenance expenses to those services. This unrealistically assumes that a significant component does not require any additional expenditure to be operated or maintained. In addition, no expenses were identified for Transmission and Distribution related supervision, hydrants, and storage. While it is possible that the Company may not have expended costs in

some of these categories since the last rate case, the possibility of no expenditures in all the categories mentioned is quite low.

The more likely explanation is that the Company does not have the kind of reliable, specific information necessary to perform a cost of service study. This conclusion is supported by a phone conversation with Company witness Ross, who stated that the Company does not keep the detailed type of records Staff needs for its cost of service study.

Q. Please explain the Company's present rate structure.

A. The Company's present rate structure consists of a base monthly facilities charge and a single block usage charge for metered residential customers that is billed bimonthly. The Company's present and proposed charges under the current rate structure can be found on ICC Staff Exhibit 5.0, Schedule 5.2.

Q. What methodology do you propose to use for the development of Staff's rates?

A. I propose to apply an across-the-board equal percentage increase to current rates to meet the revenue requirement.

Q. What is the justification for your proposed approach?

A. It is justified by the lack of accurate data to develop a cost-based alternative. As previously noted, the Company has failed to provide the necessary information to develop a cost of service study for this case. Thus, there is no cost foundation for increasing one rate more or less than another. In the absence of such support, the most equitable approach is to increase all rates (facility and gallonage) on an equal percentage basis, which is my proposal in this case.

Q. What specific charges for metered service have you developed based on your across-the-board approach?

A. I have developed the set of charges presented in ICC Staff Exhibit 5.0, Schedule 5.2. These recommended increases were based on applying an equal percentage increase to existing charges to produce Staff's proposed revenue requirement net of the revenues produced by miscellaneous charges. For the reasons discussed previously, Staff's Miscellaneous Operating Revenues differ from the Miscellaneous Operating Revenues calculated by the Company.

MISCELLANEOUS TARIFF ISSUES

Q. What do you propose with respect to Miscellaneous Operating Revenue Charges?

A. I propose a set of charges that are consistent to the extent possible with the corresponding Miscellaneous Operating Revenue Charges for other Utilities, Inc.

water and sewer companies participating in the current round of rate proceedings. That proposal includes an NSF Check Charge of \$10 and a New Customer Charge of \$15.

Q. Please begin your discussion by explaining your proposed NSF Check Charge of \$10.

A. The Company's current and proposed charge is \$7, which has been in effect since 1991 (Company response to WDM 1.37). However, as the Company itself recognizes in this data response, there has been inflation since 1991, and the proposed charge should be adjusted accordingly (Id.). In addition, the Company states it would not object to a uniform NSF Check Charge across UI operating companies (Id.). The Staff proposed \$10 charge recognizes the impact of inflation since 1991. Further, given that there is currently a \$10 NSF Check Charge in effect for UI's Northern Hills Water & Sewer Company that was approved by the Commission in Docket No. 98-0045, Staff's proposal is more consistent with current Commission practice. Finally, since this same proposal is made for other UI companies, it will advance the goal of uniformity.

Q. Please explain your proposed New Customer Charge of \$15.

A. The Company's current and proposed charge is \$12, which has been in effect since 1991 (Company response to WDM 1.36). However, as the Company itself

recognizes in this data response, there has been inflation since 1991 and the proposed charge should be adjusted accordingly (Id.). In addition, the Company states it would not object to a uniform New Customer Charge across UI operating companies (Id.). The Staff proposal of a higher \$15 charge recognizes the impact of inflation since 1991. Further, given that there is currently a \$15 New Customer Charge in effect for UI's Northern Hills Water & Sewer Company that was approved by the Commission in Docket No. 98-0045, Staff's proposal is more consistent with current Commission practice. Finally, since this same proposal is made for other UI companies, it will advance the goal of uniformity.

Q. Did the Company propose changes to its current Rules, Regulations and Conditions of Service tariffs in its initial filing for this case?

A. Yes. The Company has proposed to update its Rules, Regulations, and Conditions of Service tariffs since they have not been updated in more than 19 years. (Ross, Direct Testimony, p. 8) These changes will be addressed by ICC Staff Witness William Marr in ICC Staff Exhibit 3.0.

Q. Did you prepare a typical bill calculation?

A. Yes, I did. It is attached as ICC Staff Exhibit 5.0, Schedule 5.3.

Q. If the Commission determines a revenue requirement for Charmar, other

277 **than that recommended by Staff, how do you recommend the rates be**
278 **adjusted?**

279 A. I recommend metered rates be adjusted on an equal percentage basis to
280 produce the revenue requirement adopted by the Commission in this proceeding.
281 That would be consistent with Staff's overall rate design approach of raising
282 rates on an equal percentage basis.

283
284 **Q. Do you have any recommendations to the Commission to improve the**
285 **quality of the cost data provided by the Company in future rate cases?**

286 A. Yes, I recommend that the Commission direct the Company to provide reliable
287 and accurate data that conforms to the categories of costs presented in ICC
288 Staff Exhibit 5.0, Schedule 5.1. This cost data is essential because it represents
289 the minimum level of cost detail necessary to prepare a cost of service study.
290 Furthermore, in developing this cost data, the Company should be directed to
291 show how all costs incurred on a system-wide basis are allocated to each
292 individual water company.

293
294 **Q. Do you have any further recommendation to the Commission concerning**
295 **future UI proceedings?**

296 A. Yes, I recommend that the Commission not limit this directive to Charmar only,
297 but rather require UI to provide more complete, accurate cost data for all future

rate cases by any of its Illinois affiliates. Staff has found that cost data problems are not limited to a single utility. Therefore, it is essential that UI be required to adopt a company-wide policy of upgrading its cost information.

Q. Do you have any further recommendations to the Commission?

A. Yes. I recommend that the Commission order Charmar to file the rate tariffs, within 10 days of the final Order with an effective date of not less than 10 working days after the date of filing, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period if necessary.

Q. Does this conclude your direct testimony in this proceeding?

A. Yes, it does.

Required Cost of Service Breakdown
Charmar Water Company
Data Request WDM 1.12

Docket No. 03-0400
ICC Staff Exhibit 5.0
Schedule 5.1

| PLANT IN SERVICE | |
|-------------------------------|---|
| INTANGIBLE PLANT | 0 |
| SOURCE OF SUPPLY | 0 |
| PUMPING PLANT | 0 |
| WATER TREATMENT PLANT | 0 |
| TRANSMISSION AND DISTRIBUTION | |
| Mains | 0 |
| Meters | 0 |
| Services | 0 |
| Hydrants | 0 |
| Storage | 0 |
| GENERAL PLANT | 0 |
| TOTAL PLANT IN SERVICE | 0 |

| O & M EXPENSES | |
|--|---|
| SOURCE OF SUPPLY | 0 |
| PUMPING EXPENSES | |
| Electrical | 0 |
| Other | 0 |
| WATER TREATMENT EXPENSE | |
| Chemicals | 0 |
| Other (Tests) | 0 |
| TRANSMISSION AND DISTRIBUTION | |
| Supervision | 0 |
| Mains | 0 |
| Storage/Structures | 0 |
| Hydrants | 0 |
| Meters | 0 |
| Services | 0 |
| Misc., Rent, Other Plant | 0 |
| CUSTOMER ACCOUNT EXPENSES | |
| Remainder excl. uncol. | 0 |
| SALES EXPENSES | 0 |
| ADMINISTRATIVE AND GENERAL | 0 |
| Uncollectible | 0 |
| SUBTOTAL OPER. & MAIN. | 0 |
| RECONCILIATION | |
| TOTAL OPERATION & MAINTENANCE | 0 |
| Depreciation | 0 |
| Other Taxes | 0 |
| Income Taxes | 0 |
| Utility Operating Income (Revenues) | 0 |
| TOTAL (Net Operating Income) | 0 |

RATE DESIGN ANALYSIS

Charmar Water Company

Docket No. 03-0400

ICC Staff Exhibit 5.0

Schedule 5.2

| | Company Present | | | Company Proposed | | | % increase | Staff Proposed | | | % increase |
|--|-----------------|--------|----------|------------------|---------|----------|--------------|----------------|---------|----------|--------------|
| | Billing Units | Rate | Revenue | Billing Units | Rate | Revenue | over Present | Billing Units | Rate | Revenue | over Present |
| FACILITIES CHARGES | | | | | | | | | | | |
| Residential 5/8" | 624 | \$6.25 | \$3,900 | 624 | \$15.50 | \$9,672 | 148.0% | 636 | \$10.25 | \$6,519 | 64.0% |
| SUBTOTAL | | | \$3,900 | | | \$9,672 | | | | \$6,519 | |
| GALLONAGE CHARGES | | | | | | | | | | | |
| Metered | 3175 | \$5.10 | \$16,193 | 3175 | \$7.38 | \$23,435 | 44.7% | 3175 | \$8.35 | \$26,515 | 63.7% |
| Vacant & Adjustment | | | | | | \$0 | | | | | |
| SUBTOTAL | | | \$16,193 | | | \$23,435 | | | | \$26,515 | |
| Unreconciled Difference | | | \$0 | | | \$0 | | | | \$0 | |
| | | | | | | | | | | | |
| SUBTOTAL FACILITIES & GALLONAGE | | | \$20,093 | | | \$33,107 | 64.8% | | | \$33,034 | 64.4% |
| MISCELLANEOUS OPERATING REVENUE | | | | | | | | | | | |
| Forfeited Discounts/Late Payment Charges | | | \$106 | \$106 | | | 0.0% | | | | \$174 64.2% |
| New Customer Charge | | | \$36 | | | \$24 | -33.3% | | | \$30 | -16.7% |
| Misc. Service Revenues | | | \$0 | | | \$0 | 0.0% | | | \$0 | |
| Uncollectible Accounts | | | \$0 | | | \$0 | | | | \$0 | |
| Reconnection Fee | | | \$0 | | | \$0 | | | | \$0 | |
| Non Sufficient Funds (NSF) | | | \$0 | | | \$0 | 0.0% | | | \$0 | |
| MISC. SUBTOTAL | | | \$142 | | | \$130 | -8.5% | | | \$204 | 43.7% |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| TOTAL OPERATING REVENUE | | | \$20,235 | \$33,237 | | | 64.3% | | | \$33,238 | 64.3% |

**CHARMAR WATER COMPANY
TYPICAL RESIDENTIAL BILL COMPARISON**

Docket No. 03-0400
ICC Staff Exhibit 5.0
Schedule 5.3

| LINE NO. | | | CURRENT | COMPANY PROPOSED | STAFF PROPOSED |
|-------------|--|--|---------|---------------------|-------------------|
| 1 | | Facilities Charge | \$6.25 | \$15.50 | \$10.25 |
| 2 | | Gallonge Charge (per 1,000 gallons) | \$5.10 | \$7.38 | \$8.35 |

| | USAGE 1,000 GALLONS (A) | CURRENT MONTHLY BILL (B) | COMPANY PROPOSED MONTHLY BILL (C) | DOLLAR INCREASE (D) | PERCENT INCREASE (E) | STAFF PROPOSED MONTHLY BILL (F) | DOLLAR INCREASE (G) | PERCENT INCREASE (F) |
|----|----------------------------------|-----------------------------------|---|---------------------------|----------------------------|---|---------------------------|----------------------------|
| 3 | 1 | \$11.35 | \$22.88 | \$11.53 | 101.59% | \$18.60 | \$7.25 | 63.88% |
| 4* | 2 | \$16.45 | \$30.26 | \$13.81 | 83.95% | \$26.95 | \$10.50 | 63.83% |
| 5 | 3 | \$21.55 | \$37.64 | \$16.09 | 74.66% | \$35.30 | \$13.75 | 63.81% |
| 6 | 6 | \$36.85 | \$59.78 | \$22.93 | 62.23% | \$60.35 | \$23.50 | 63.77% |
| 7 | 9 | \$52.15 | \$81.92 | \$29.77 | 57.09% | \$85.40 | \$33.25 | 63.76% |

Notes:

* Typical monthly residential usage